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SUBJECT: CONSUMER PROTECTION IN EGYPT

REF: CAIRO 3097

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Summary

¶11. (SBU) Egypt's Consumer Protection Law came into effect in November 2006, providing consumers with new legal protections and businesses with new obligations. The law also created a Consumer Protection Agency (CPA) authorized to investigate complaints and mediate between consumers and businesses. CPA Director Said El Alfi told us his biggest challenge is convincing consumers that CPA can not control inflation. To educate the public, CPA held a media workshop in November 2007, calling on journalists to help raise awareness of consumer rights and responsibilities. Officials argue that competition, not the CPA, will help control inflation. Business has remained cautious about the law, concerned over provisions making all businesses in the supply chain "collectively" responsible for consumer protection. While a positive development, Egypt's consumer protection efforts must be backed by steps to end corruption and cronyism if real competition is to flourish.

Consumer Protection Law

¶12. (U) Egypt's Consumer Protection Law, passed in May 2006, came into effect in November 2006. The law superseded a patchwork of existing laws and consolidated legal protections for consumers and attendant obligations for businesses. Consumers now have the right to accurate information on products, including the products' origin and the names of manufacturers and importers, and the right to safe products that comply with official specifications. Accordingly, businesses are prohibited from providing misleading information about products or intentionally selling faulty goods. Businesses are also now required to provide consumers with a sales receipt and accept returns and exchanges within 14 days of sale, as long as a receipt is presented. Both goods and services are covered by the law. Businesses that fail to comply face fines from LE 5,000 (approximately \$1,000) to LE 100,000 (approximately \$18,000).

¶13. (U) One whole article of the law covers sales through installments, a common means of purchasing big-ticket items in Egypt. Only a fraction of Egypt's consumers use bank credit cards, so many retailers, and even housing construction companies, offer installment purchase plans. Businesses must now disclose full information on the installment plan, including the name of any intermediary creditor, the time period and number of installments, and the total cost, including interest and fees.

¶4. (U) In addition to specifying legal protections, the law created a Consumer Protection Agency (CPA) with authority to investigate complaints, mediate between consumers and businesses, and recommend legal action against businesses found in violation of the law. Prior to creation of CPA, a consumer's only recourse in the case of faulty merchandise not refunded/replaced by the producer was a civil lawsuit. Several NGOs developed over the years to support consumers in suits against businesses. The law empowered these NGOs to file "class action" complaints with CPA on behalf of all consumers against businesses suspected of violating the law. Several of these NGOs have representatives on the CPA Board of Directors.

¶5. (U) Established with assistance from USAID, CPA began operations in November 2006 under the umbrella of the Ministry of Trade and Industry (MOTI). Its 15 member Board of Directors is appointed by MOTI, drawing from industrial and commercial organizations as well as consumer NGOs, the media and academia. According to Said El Alfy, CPA's Director and a prominent NDP member, the agency's overall mission is to "raise the quality of products and services in the market." When investigating a complaint, CPA can direct MOTI's cadre of inspectors to inspect businesses against which complaints have been filed. CPA can also refer businesses to the Public Prosecutor for legal action and possible penalty.

Misperceptions

¶6. (U) Egypt has not historically had a strong consumer base and Egyptian consumers are still not used to having rights. Hence, it is not surprising that El Alfi told us that his biggest challenge is educating Egyptians about what a CPA does and overcoming the perception that CPA was established to control inflation. Given Egypt's inflation rate over the past year, averaging between 8-12%, consumers are anxious about rising prices. Most still believe - despite recent free market reforms - that the government should intervene to keep prices under control. In April 2007, CPA opened, with USAID support, a call center servicing the Cairo metropolitan area. The center has received almost 2,000 complaints, 70% of which were about rising prices, according to El Alfi. The bulk of the legitimate complaints were about large appliances or cars, and most were resolved in the consumer's favor through mediation with the producer. CPA has also helped 3 companies to recall faulty products over the past year. A branch of CPA is scheduled to open in Alexandria in mid-2008.

The Media's Role

¶7. (SBU) In an effort to correct misperceptions, CPA, with assistance from USAID, sponsored a media workshop in November 2007. In his opening remarks, El Alfi stressed that the media should help consumers be more informed and take greater responsibility for their decisions in the marketplace. The media also has a responsibility to report accurately, not "inciting" consumers through stories of collusion and lack of government action, El Alfi told journalists. After his remarks, El Alfi told us that much of the media retains a "socialist" mentality, believing the government should not only regulate the economy, but produce and control supply of basic consumer goods to ensure stable prices. He pointed out that price stability is the responsibility of the Central Bank (Note: CBE is moving to an inflation targeting monetary policy, but local analysts believe it will be a few years before the policy is fully implemented and effective).

¶8. (U) Hisham Regab, Assistant Minister of Legal Affairs at MOTI, emphasized to workshop participants that competition, not legal protections for consumers, brings down prices. While price collusion does occur, as evidenced by the Competition Authority's finding of price collusion among cement producers (reftel), lack of competition is the enabling factor in collusion. Greater competition will not only bring prices down, but drive out non-client-friendly businesses and those that sell defective merchandise. It was for this reason that the government passed the Competition Law first in 2005, and then the Consumer Protection Law in 2006. A third law, governing "internal" trade, is expected in

Business Reaction

¶9. (U) Businesses remain concerned that new consumer protections will make operating in Egypt more difficult than it already is. All of the links in the supply chain, producers, importers, wholesalers and retailers are now "collectively" responsible for ensuring that products sold are defect-free. Mohamed Youssef, Secretary General of the Egyptian Businessmen's Association, told us that some producers are concerned about being held responsible for defects caused by the retailer. Similarly, some retailers are concerned about the new requirement to accept returns. Mohamed Hanno, Managing Director of the Alexandria-based import firm Arab Computers, told us that accepting returns is a completely new practice in Egypt. Many businesses still have signs on the premises stating that returns and exchanges are not allowed. Store owners are concerned about consumers abusing their legal right to return merchandise by, for example, purchasing items and returning them after one use.

Comment

¶10. (SBU) The competition and consumer protection laws are positive steps toward modernization of Egypt's commercial and regulatory environment. In conjunction with the Competition Authority, the CPA sets the stage for a modern consumer economy with a high degree of transparency and greater trust between businesses and consumers. Modernizing regulations and changing mindsets about consumer behaviors, however, will take some time to become an accepted norm. As evidenced by the number of calls CPA receives about prices, consumers care much more about the cost of goods than about their rights as a consumer. While increased competition will certainly contribute to reducing prices, that degree of competition (particularly in some industries) is not likely to take hold for some time to come. For that to happen, the government will have to address the corruption and cronyism that dominate Egypt's economy and make it difficult for businesses to compete fairly in the marketplace.

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